By William L. Givens

# The U. S. can no longer afford free trade

In the current debate on U.S.-Japanese trade, American interests are being poorly served by the simplistic arguments on both sides. American business, government, and labor representatives are pointing with justified concern to the huge, steadily mounting U.S. trade deficit with Japan and demanding that Japan help reduce it by opening its markets wider to U.S. imports. Japan responds that its markets are essentially open and that the real problem is simply that Americans do not work as hard, manage as well, or care as much about quality as do the Japanese. The true situation is rather more complex, and the implications are far-reaching.

First, let us note candidly that, overall, Japan has become the stronger industrial power and that in most instances it is U.S. industry that needs, and gets, the protection. In a truly free-trade environment, our trade deficit with Japan would be even larger than it is, and some of our basic industries, notably steel and automobiles, would collapse rather quickly. The U.S., once the champion of free trade, can no longer afford it.

Just 30 years ago the U.S. dominated virtually the entire roster of industries that Japan now controls. Since then Japan has raised itself to a position of respect and affluence through a series of what one might call "strategic reversals." Japanese corporations have achieved global superiority in a long succession of major industries in which they started late and far behind.

The ultimate key to Japan's success has been a sophisticated strategy of selective protectionism. Japan has protected, at all costs, a narrow moving band of products at the margin between certain lower-technology industries—the ones in which, at a given stage, it already has global superiority and so no longer needs to protect—and those higher-technology industries in which it is not yet ready to launch its challenge. It is within that band that each strategic reversal has taken place.

**World market.** The process is quite straightforward. Japan imports a technology—nylon, steel, television, semiconductors, robotics—from the West. It then protects the industry in question from stronger foreign competition to whatever extent and by whatever means may be required while it gains scale, experience, cost parity, and momentum in Japan itself—the world's second-largest and fastest-growing market. It next moves into the world market, exporting aggressively, further enhancing its cost position. Gradually it converts a part of its cost advantage into improved product quality. At some point, the Japanese competitor is able to offer a better product, profitably, and at a lower price, and the reversal is complete. It then consolidates its position by investing in manufacturing capacity in the foreign markets where it has achieved the reversal.

The strategic leverage provided the selected Japanese industries by the initial protection has been crucial. By now the evidence is overwhelming that real unit costs in an industry will decline—that is, that productivity will rise—systematically as experience accumulates with market growth. By denying American companies access to Japan's rapidly expanding markets while simultaneously exploiting Japan's free access to the U.S. market, Japan, in case after case, has preempted the lion's share of the available market growth and all the cost-productivity benefits that go with it. Except for that pivotal advantage, it is most unlikely that Japanese industry could have achieved any of its major strategic reversals.

**Eroding confidence.** Consider the long-term dynamics of Japan's narrow moving band. In the early stages, only the lowest-technology markets—textiles, for example—needed protection. Somewhat later, having achieved reversals in textiles, black-and-white television, and steel, Japan no longer needed to protect those industries. Protectionist measures—tariff and nontariff, overt and covert—could be focused on the growth industries of that period, such as autos and color TV, until those reversals were carried out. Today, Japanese protectionism can be concentrated on such sophisticated sectors as advanced computers, biotechnology, telecommunications, and aircraft.

As the narrow moving band has moved across the technology spectrum, Japanese industries have been protected less and less, U.S. industries more and more. The band has now advanced well into the upper end of the technology range, where additional reversals will only make matters worse. It is increasingly clear that Japan intends to extend its dominance across the entire spectrum. The effect of this process has been a progressive erosion of our industrial base, our negotiating posture *vis-à-vis* Japan, and our confidence in ourselves.

There are no easy answers to the problem. We have allowed a fundamental conflict of interest to develop between the world's two largest economies. The long string of reversals has fostered Japanese aspirations that will not be denied easily but that can be satisfied only at the expense of the U.S. The reversals—and the erosion of U.S. competitiveness—will continue until American industries consistently preempt a significant share of Japanese domestic markets within and above Japan's narrow moving band.

Turning the tide will require skillful and aggressive marketing by those U.S. corporations that currently enjoy a competitive advantage in high technology. More important, since Japan presumably will not be eager to compromise its own aspirations, a solution will require a bolder, more pragmatic, more sophisticated negotiating posture by the U.S. government. We must recognize that free trade, while a laudable concept, is hopelessly inadequate as a trade policy. ■

**A laudable idea has become an inadequate policy as Japan wins dominance of a series of industries by selective use of protectionism**

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